Market Outlook and Economic Development Potential

4

185th Street Station Subarea Plan

Summary of Key Findings of Subarea Market Assessment

A market assessment was completed in November 2013 by BAE Urban Economics for the 185th Street Station Subarea. The assessment identified the potential for Transit-Oriented Development (TOD) in the subarea through an analysis of potential market demand. The assessment also provided recommendations based on the location and characteristics of the station subarea and how these conditions relate to trends in Shoreline's current and future demographic and economic profile and development patterns.

Key findings of the market assessment are highlighted below, followed by a summary of background analysis and other information relevant to economic development potential in the subarea.

- Key target markets over time include Millennial Generation (Generation Y) and retiring Baby Boom Generation households seeking both for sale and for rent options, as well as a more mixed use urban environment.
- There is the potential to create transit-oriented development in proximity to the new light rail station and connect it via an enhanced corridor (N-NE 185th Street/10th Avenue NE/NE 180th Street.) This corridor connects the Aurora Avenue N/Town Center at the west side of the subarea and the mixed-use node in North City along 15th Avenue NE at the east side of the subarea.

The proximity of the core commercial area in North City to the proposed light rail station presents an opportunity to enhance access for pedestrians, bicycles, and local transit along the N-NE 185th Street/10th Avenue NE/NE 180th Street corridor, as well as other streets in the subarea. The corridor also connects to Aurora Avenue N approximately one mile from the proposed light rail station. Improvements enhancing transportation for all modes along the N-NE 185th Street/10th Avenue NE/NE 180th Street corridor would enhance residents' access to and from the new station, as well as to and from retail and neighborhood services.

- The primary market opportunity for new development at the NE 185th Street Station Subarea is the development of residential units over the next 20 years. Approximately 700 units would represent 15 percent of the new residential growth that PSRC projects for all of Shoreline through 2035. This is a conservative estimate and the residential demand could be higher within the next 20 years if the subarea were to capture more of the city's projected residential growth. There also would be additional longer-term demand beyond this. The redevelopment of the Shoreline Center site, west of I-5, would serve an important role in the station subarea's overall growth over the long-term.

- A variety of residential types could be supported around the station subarea. Housing that includes a mix of for sale and for rent options (condominiums, apartments, townhouse and row house units, various other types of multifamily, attached single family buildings, small single family clustered housing/cottage units, etc.) would appeal to a variety of income levels, household sizes, and residents' interests. Another potential product type based on Shoreline's aging population would be age-restricted (55+) housing.
- In the initial years of neighborhood redevelopment, after the light rail station is operating, it is anticipated that the demand for retail would be focused on convenience-oriented retail serving transit riders and residents and located at the transit station (once the station is operating). The station area currently lacks retail uses, with the nearest neighborhood retail located just over one-half mile away on 15th Avenue NE. The city's primary commercial corridor on Aurora Avenue N is located about one mile away. A small amount of retail at the station could support the needs of transit riders and local residents.

  The station location is too far away from other commercial hubs and lacks I-5 access to draw some types of retail. However convenience-oriented, neighborhood retail uses (e.g. coffee shops, cafes, sundries, personal services, etc.) located at the station, or within a direct sight line between the station and parking structure, would maximize access to transit riders and immediate area residents and have the greatest potential. Over the longer term, as more housing develops in the subarea, it is anticipated that there would be a demand for more neighborhood-serving retail uses and services along key corridors. More demand for neighborhood-serving retail and services would be driven by increased population and households in the subarea.

  Adopting zoning that would allow conversions of single family homes along major corridors for these types of uses (e.g. homes converted to dental office, tax accountants, coffee shops, etc.) would help to serve the transitioning demand over time.
- There appears to be limited potential for office or other types of institutional uses. Shoreline does not currently have a substantial office market and is positioned between much larger office markets in Lynnwood and North Seattle. Most existing office space is geared toward local-serving professional and service firms. The lack of direct access to/from Interstate 5 is another limiting factor for office/employment uses; although location at the light rail station could be beneficial depending on where employees live.
- The existing development pattern of the station area and its location create challenges for larger mixed-use redevelopment. For these reasons, it is anticipated that redevelopment will happen very gradually, over many decades. Key challenges include:
  - The difficulty of assembling sites for development in the single-family neighborhoods given current parcel sizes.
  - Development interest is likely to be more focused on the Aurora Avenue N and 15th Avenue NE/North City corridors because they are established locations that already offer a mix of housing types and retail choices. Interest in station sites is likely to increase as available development sites in North City become more limited.
  - The site with the single greatest potential is the Shoreline School Center site property west of I-5. The School District has no current plans to redevelop or sell this site and has expressed interest in retaining the property and maintaining community uses there with the understanding that land may be needed for development of future schools and educational uses. Without redevelopment of this site, new development around the station area would face challenges of site assembly (addressing the need to assemble multiple parcels to create a site large enough for redevelopment into multifamily/mixed use).

Background Analysis

The 185th Street Station Subarea Market Assessment involved a study of TOD potential, including identifying key opportunities around the planned light rail station, and addressing potential impacts that TOD development might have on property values and property taxes.

In order to project future development potential, the analysis supporting the market assessment used local demographic and market data for a defined primary and secondary trade area. The primary trade area represented the immediate vicinity within which the real estate markets compete, while the secondary trade area represented the largest area within which real estate projects compete with each other for tenants based on market prices and amenities.

Markets considered were for those uses consistent with mixed-use TOD and included residential (rental and for-sale), retail, and office space. While no public agency or institutional uses (i.e. mission-driven rather than market-based uses) were identified during this study, demand from such users may still arise in the future.

Starting with defined primary and secondary trade areas, the analysis then profiled the local population and household characteristics to define the current economic base for each geography compared to a benchmark geography. This approach provided insight into the differences between the trade areas and the larger region, the types of opportunities this may present, and what types of future development would be best positioned to realize market potential.

The analysis included a review of existing real estate market conditions for each use, using recent reports, including work for Sound Transit by Kidder Matthews, published real estate market data, a field evaluation of the trade areas and competitive locations, and an analysis of recent lease and sale transactions. This information can help to provide insight into the general strength of the local real estate markets to determine whether there is existing pent up demand for any uses, or an inventory of vacant space that would need to be absorbed before new development could occur.

Celebrate Shoreline at Cromwell Park

Hayward Station transit-oriented development concept, Bay Area, CA
Source: BAR Architects and Bay Area Economics

Finally, the analysis incorporated existing conditions data and growth projections from the Puget Sound Regional Council (PSRC) Growing Transit Communities project. This analysis evaluated the development potential around the planned NE 185th Street Station and determined opportunities for the station area to capture a greater share of projected growth. Key influencing factors and findings of the analysis are described in more detail below.

HALF-MILE PROXIMITY TO STATION

New transit stations often spur new development and/or redevelopment in their immediate vicinities when there is market support for new types of denser, mixed use TOD, as well as supporting City actions such as rezoning to accommodate market demand. These effects are generally limited to a half-mile radius or ten-minute walking distance around stations, often the focus of planning for station areas/subareas. Research has confirmed that the half-mile distance/ten-minute walk is generally the outer limit of how far people are willing to walk to and from a high-capacity transit station.

Within the station subarea, the market can support higher density residential, as well as ground floor active uses (retail, commercial, etc.) that will attract pedestrians heading to and from transit.

A PLACE OF TRANSITION

The amount of new development or redevelopment that can occur around a new station depends not only on proximity to the station, but also on a wide variety of factors. Redevelopment potential around light rail stations is influenced by local population, housing, and employment trends and forecasts, household characteristics, the strength of the existing real estate market, local real estate trends, and other factors. Existing conditions in the station subarea, proximity to commercial hubs and corridors, proximity to daytime population centers, proposed land uses, and the level of improvements to support a walkable district also are important factors.

When stations are located in suburban and low-density residential areas, with a considerable distance from more densely populated areas, they are often designed with park-and-ride facilities to serve as an access point for local commuters to use transit to commute to their places of employment.

In the case of the planned NE 185th Street Station, the subarea is a place of transition. If there were no change to current land uses, the low density single family neighborhoods would not generate the level of ridership sufficient to support the light rail system. As such, the City is adopting rezoning that will transform the station subarea into an urban village with higher densities and a variety of housing choices and mixed use development. Rezoning of the station subarea will attract redevelopment over time, although there will be challenges related to assembling individual properties to create a site of sufficient size for TOD.

Sound Transit also is planning for this station to be a receptor for commuters of the area, via a 500-car park-and-ride structure to be built in conjunction with the station. After the station and park-and-ride structure are built, customers to the location would generate some demand and opportunities for a small amount of commuter-oriented retail near the station.

PRIMARY AND SECONDARY TRADE AREAS

The primary trade area for the planned NE 185th Street Station Subarea includes an approximate one-mile radius around the station, located within the City of Shoreline. (See **Figure 4-1**.) New development or redevelopment near the station would draw most of its support from local residents and businesses in the city. The secondary trade area includes the rest of the city, as well as northern King County and southern Snohomish County communities, including North Seattle, Woodway, Edmonds, Esperance, Mountlake Terrace, and Lynnwood. New development or redevelopment would capture some support from this larger area. The demographics and characteristics of the primary and secondary trade areas were compared to the larger King County region to provide insight into the differences between the trade areas and the region, the opportunities it presents, and the types of development that can best capture market potential.

DEMOGRAPHIC, ECONOMIC, AND REAL ESTATE MARKET TRENDS

Shoreline is a stable middle class suburban community of 54,000 that saw minimal growth in population and households from 2000 – 2010, compared to King County, which grew more than 11 percent during the same period. The population and household trends in Shoreline through 2010 were influenced by the economic recession as well as the lack of redevelopment of housing. While opportunities to develop multifamily housing have existed along the Aurora Avenue corridor and in North City, through 2010 there was minimal activity in this market. In recent years, multifamily projects have been developed in these areas, spurring more growth in the city than occurred during the last decade. With rezoning around the planned light rail transit stations, there will be additional opportunities for new residential development, providing more housing choices in the community and contributing to its growth and economic well-being.

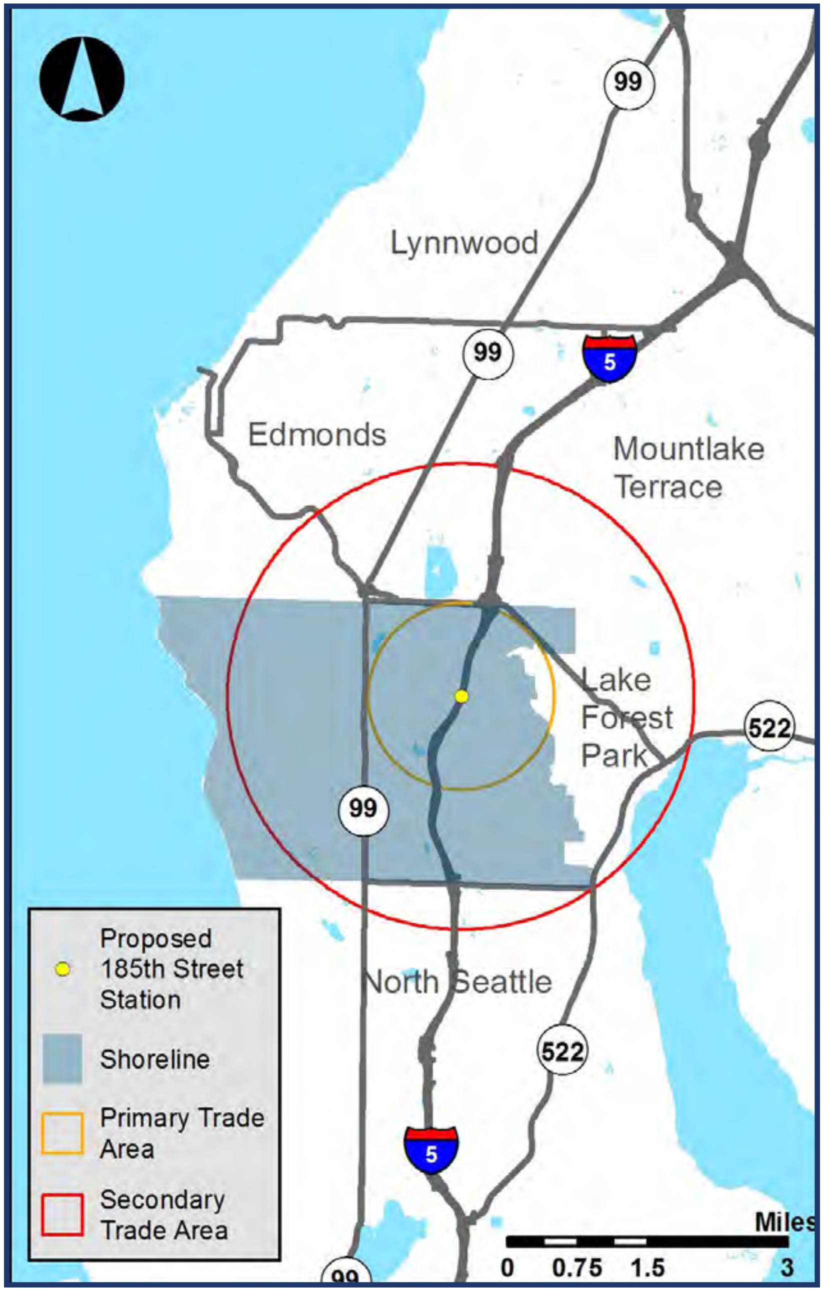


FIGURE 4-1: Shoreline Trade Areas

Single Family Housing on 5th Avenue

Shoreline's demographics are generally comparable to those of King County and attractive to a wide range of developers and retailers. Because the community has a primarily residential character, with substantial destination retail to the north in Lynnwood and to the south in North Seattle, its local economy is primarily oriented to serving local residents. A similar pattern applies to office uses, with substantial office clusters in Lynnwood and North Seattle attracting these users.

Refer to Chapter 3 of the subarea plan for more information on population, housing, and employment trends and projections.

HOUSING CHARACTERISTICS—Shoreline's housing stock reflects its older suburban character. Although the community's history dates to the 1890s, much of it was developed post-WWII in the 1940s, with suburban neighborhoods that were largely built out by 1989. With much of the housing stock reaching 50 to 60 years or more, some residents either have been making substantial renovations to their homes, or demolishing existing homes to build new ones. Single-family homes represent more than 70 percent of the total residential units in the city. Both King County and the Trade Area have substantially greater proportions of multifamily housing than Shoreline.

The lower proportion of multifamily units in Shoreline suggests potential opportunities for two types of new housing products. The first product type is age-restricted multifamily units, such as The Blakely apartment project recently developed in Shoreline and now leasing. The second product type would include multifamily units that feature a higher proportion of smaller units, targeted at young adults who have grown up in Shoreline and are looking to form their first households, as well as other Millennial households from elsewhere in the county who are looking for more affordable and well located rental residential units. The proposed zoning for the subarea will provide opportunities for development of these housing types.

RETIRING BABY BOOMERS AND EMERGING MILLENNIALS—Shoreline's population has been aging, resulting in an increasing proportion of seniors and a decreasing proportion of children in households. In 2000, over 22 percent of the population of Shoreline was under the age of 18. By 2010, the same age cohort made up only 19 percent. This is indicative of national trends in demographics, including the population of various generations of Americans.

The Baby Boom generation, which includes people born between 1946 and 1964 (as well as Later Boomers from 1956 to 1964) is the largest generation in America. Generation X includes people born between 1965 and 1980 and is significantly smaller than the Baby Boom generation. The Millennial generation, also known as Generation Y includes people born from 1980 to about the year 2000, and is often called the "Echo Boom" generation because like the Baby Boom generation it is also a large population (although not as large as the Baby Boomers).

It appears that Shoreline is experiencing these shifts in generation population levels more intensely than other areas in King County. The declining rate of children under 18 is more dramatic in Shoreline (-3 percent), compared to both King County (-1.6 percent) and the Trade Area overall (-1.1 percent). This suggests that Shoreline's population is growing older at a faster rate than the surrounding region due to a larger percentage of residents that are of the Baby Boom generation. The sharp increase in the proportion of the Shoreline population over the age 55 suggests that Baby Boomers are aging in place in Shoreline at a greater rate than King County overall. King County residents aged 55-64 grew by less than four percent between 2000 and 2010, compared to a six percent increase in Shoreline.

These demographic trends will influence the housing market and demand in the station subarea. Retiring Baby Boomers looking to downsize but wanting to remain in the Shoreline community may be interested in some of the housing types that could redevelop in the station subarea.

The trend of homeowners aging in place has been influencing school populations and household size. Even though Shoreline is known as having one of the better school districts in the region, the percentage of children under the age of 18 has been decreasing significantly in recent years. Household size also decreased between 2000 and 2010 to the current level of 2.4 people per household. This decrease in household size in Shoreline reflects both a shrinking percentage of households with children as well as a rise in single-person households.

These factors also will influence the demand for new housing types in the station subarea that may appeal to smaller households and single-person households. At the same time, there is a strong interest in providing family-friendly housing and amenities for families and children in the subarea (parks, trails, play areas, etc.) This, along with Shoreline's reputation for good schools and an expected shift in the demographic trends in the coming decades with more Millennials (Generation Y) buying and renting homes, may result in an increase in the number of households with children in the subarea. As addressed in the environmental analysis completed for the subarea plan, it is anticipated that there will be a growing demand for schools in the coming decades as the station subarea redevelops.

As members of the Millennial generation emerge into the market as home buyers and renters, a shift in the types of homes they are interested in for their families will be evident. Studies are showing that Millennials are less interested in larger suburban homes and more interested in living in smaller homes in urban neighborhoods that are more walkable and provide opportunities to live closer to work and spend fewer hours commuting.

GROWING INTEREST IN URBAN INFILL HOUSING AND MIXED USE— The Urban Land Institute (ULI), a national professional organization for developers, real estate investors and land use professionals researches and tracks trends in redevelopment across the nation. In a 2014 forecast of "development prospects," ULI ranked infill housing and urban mixed use redevelopment as the two highest prospects. Retiring Baby Boomers and emerging Millennial home buyers and renters are creating a higher demand for urban infill housing and mixed use. Based on recent studies by ULI and others, both of these types of consumers are seeking active neighborhoods and in many cases are looking for more compact, connected urban lifestyles.

While urban central cities are projected to do well in the coming years based on this demand, places that mix the best of suburban and compact, mixed use qualities may be most desirable. In a recent national survey "American in 2013: Focus on Housing and Community" ULI found that among all adults polled (including Baby Boomers and Millennials), the quality of public schools, parks and recreation opportunities, walkability, and short distance to work or school all ranked as important or very important.

Most research is showing that on the whole, those in the Baby Boom generation will be relocating to smaller, lower maintenance homes in locations that have more services close by. According to Age-Related Shifts in Housing and Transportation Demand: "When older householders do move, they are more likely to move into higher density housing than middle-age adults…There are a number of indications that baby boomers are more likely than younger adults to have a preference for more walkable locations, public transit, and higher density living." This trend is very important for Shoreline, which already has a high percentage of older residents.

Art and Swim Camp at Shoreline

With new housing opportunities in the station subarea, Shoreline's older residents could choose to age in place in the community but move to a smaller home requiring less maintenance. With Shoreline's reputation as a livable community (good schools, parks, trails, and other amenities), more families with children likely will be attracted to new housing opportunities in the station subarea. These trends, along with the Baby Boomer and Millennial generations' growing interest in living in urban neighborhoods, will influence the demand for housing in the station subarea.

Creating a transit-oriented, walkable district with a variety of housing choices to fit varying income levels will be important. Over time, the success of the station subarea will be tied to its ability to transform into a safe, accessible, and vibrant place with services and amenities for residents of all ages and households of varying size (for singles, couples, and families).

INCOME AND EDUCATION

Shoreline is a solidly middle to upper-middle class community with high levels of educational attainment, similar to the region. Similar to King County (54 percent) and the Trade Area (50 percent), over half of the City's population has a college degree. The high education level corresponds to higher household incomes across all geographies, compared to the US.

The median income of Shoreline residents of $67,000 falls between the $71,000 of residents of King County overall and the $59,000 of residents of the Trade Area. The relative similarity between Shoreline and King County means that Shoreline has the potential to be attractive to a full range of retailers.

EMPLOYMENT

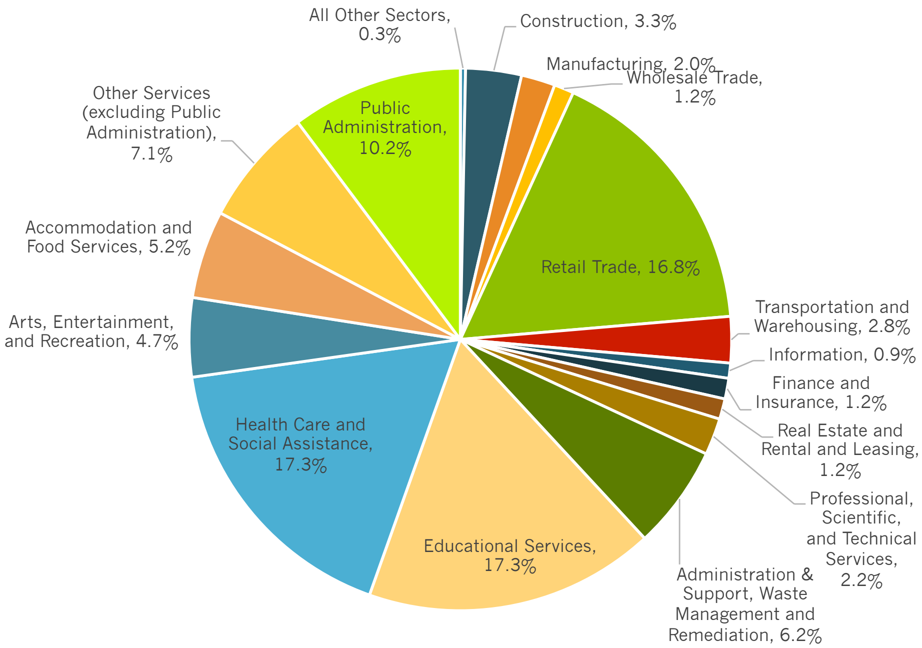
Employment data are derived from the Longitudinal Employer-Household Dynamics (LEHD) program, which is provided by the US Census Bureau. In order to protect the confidentiality of worker and employers, LEHD introduces a small amount of statistical "noise" for smaller geographic units. As a result, LEHD data may not match data from other sources.

Shoreline's local economy is improving, and its employment base is dominated by the Education Services, Health Care and Social Services, and Retail Trade sectors.

In 2011, Shoreline had an estimated 17,212 jobs, representing a 5.3 percent increase from the number of jobs in 2002. This was a greater increase compared to the Trade Area's 3.2 percent increase. However, it was half the rate at which jobs grew in King County (11.7 percent). In 2011, Shoreline's largest industries included the Education Services, Health Care and Social Assistance sectors (17.3 percent each), Retail Trade (16.8 percent), and Public Administration (10.2 percent). These industries support the city's residential base and contribute to its desirability as a livable community. All other individual industries made up less than 10 percent of the job market. As local residents continue to age, the health care sector should continue to generate new local jobs to meet their needs. **Figure 4-2** shows employment in Shoreline by industry type.

In 2011, the largest sources of jobs located in Shoreline were in the Educational Services, Health Care and Social Assistance, and Retail Trade sectors. As the population continues to age, the health care sector will continue to be a generator of local jobs and an amenity to aging residents, and will create support for additional development.

FIGURE 4-2: Shoreline Employment by Industry, 2011



COMMUTE PATTERNS AND JOBS-TO-HOUSING RATIO—As a suburban community, Shoreline has a lower jobs-to-housing ratio at 0.75 than King County at 1.4. The result is that 82 percent of Shoreline residents commute to jobs in other communities. At the same time there are more than 11,000 people who work in Shoreline that commute from homes in other communities. This substantial cross-commuting is a significant contributor to vehicle miles traveled and peak period traffic congestion. PSRC forecasts that Shoreline will add another 7,000 jobs by 2035, which will bring the jobs-to-housing ratio up to .91.

REAL ESTATE MARKET TRENDS

OFFICE MARKET TRENDS—Shoreline has a limited office market that primarily includes smaller professional and other service firms oriented towards local residents. Shoreline is an in-between market compared to Seattle north of Downtown and Lynnwood, which have much larger office markets that accommodate a range of corporate users and regional offices. Businesses with larger office needs seek vacant space in the Seattle and Lynnwood markets because of their existing office clusters, and because they offer the larger floor plates such businesses typically seek. Shoreline's smaller and older office buildings are not competitive with Class A and B space available in the Seattle and Lynnwood markets, and serve a niche for locally oriented businesses that want to be located in Shoreline.

According to CBRE's Second Quarter 2013 local market report, the North Seattle/Interbay office submarket that includes Shoreline had a vacancy rate of just over 10 percent (with a vacancy rate of nearly 24 percent in the adjacent Lynnwood / Edmonds / Mountlake Terrace submarket). Shoreline's relatively lower rents of $22.50 per square foot per year (full service gross) indicate lower demand than other locations in the Trade Area that can support higher rents.

Since Shoreline's economy is based around educational services, health care services, and retail trade, near-term demand for office space is most likely to be driven by increased demand from these sectors.

RETAIL MARKET TRENDS—Highway 99/Aurora Avenue N is Shoreline's central retail corridor, with considerable potential for transformation into a mixed-use urban setting that can accommodate additional retail. The corridor contains much of Shoreline's retail in various types of shopping center and highway oriented configurations. It is in the beginning stages of the market-based redevelopment into a more urban mixed-use area, with new dense mixed-use residential projects. This redevelopment can be encouraged through a nodal approach that identifies major and minor nodes along the corridor based on their development potentials.

Promoting nodal development at busier intersections that already draw Shoreline residents can catalyze redevelopment along the corridor more quickly than disparate project-by-project development.

As new development and the introduction of RapidRide E Line bus rapid transit attracts new households and other uses, this will create the potential to attract new retailers, particularly food, dining, and other types of specialty retail that target households seeking a more urban lifestyle. At the same time, overall retail demand in Shoreline, particularly for destination retailers, will continue to be constrained by the city being located in-between overlapping trade areas for the Alderwood Mall in Lynnwood and the Northgate Mall in North Seattle, and the retail and entertainment uses clustered around these locations (as noted in **Table 4-1** showing the analysis of retail leakage from the City's Comprehensive Plan).

Most new retail in Shoreline will continue to be local-serving; Aurora Avenue N has the potential to attract some larger format retail uses. According to the Kidder Matthews Second Quarter 2013 Seattle Retail Real Estate Market Review, within King, Snohomish, and Thurston counties, vacancies are down and rents have stabilized since 2012. Construction is beginning to come back, but the market first needs to absorb vacant space at current rents before tenants will pay rents that can support new development. Developments with an anchor tenant can support triple-net (NNN) rents ranging between $25 and $30 per square foot per year, while those without anchors can support NNN rents that range between $15 and $25 per square foot per year.

Table 4-1: Shoreline "Sales Leakage"

RETAIL SECTOR	% OF RESIDENT DOLLARS SPENT ELSEWHERE
Health and Personal Care Stores	41%
Clothing and Clothing Accessories Stores	91%
General Merchandise Store	71%
Foodservice and Drinking Places	37%

(Note: NNN rents do not include property taxes, insurance costs, or maintenance fees that are charged to tenants separately.)

RESIDENTIAL MARKET TRENDS—As discussed previously, Shoreline has been primarily built-out as a single family residential community to date. The city's housing stock mostly consists of older homes built in the middle to late 1900s, although some new residential development has been occurring in the form of denser multi-story mixed-use residential with active ground floor units. New multifamily development has been constructed recently along Aurora Avenue N and the 15th Avenue NE corridors. There is considerable potential for larger, obsolescent properties along Aurora Avenue N, and to a lesser extent 15th Avenue NE, to accommodate future residential growth.

Between 2000 and 2012, Shoreline's residential inventory increased modestly, by 7.6 percent, even with no net population growth, compared to a more than 16 percent increase in residential units in King County. As noted earlier, the substantial decrease in household size helps explain growth in housing units even with no net increase in population.

Most of this growth (68 percent) came from the development of multifamily units, compared to 54 percent of county units. This suggests that the market is already responding to meet the needs of smaller households.

Single Family Housing

Home prices in Shoreline cover a fairly broad range, as shown in **Table 4-2**. Median home prices in the past year have increased considerably in central and eastern Shoreline, at a rate nearly double that of King County; however they have remained essentially flat in the western area of Shoreline. As the housing market continues to strengthen, much of Shoreline continues to be attractive to potential homebuyers looking for a greater value than other areas in the County. Amenities, such as Shoreline's high-performing school district, RapidRide E Line BRT, and the coming Lynnwood Link extension will contribute to strengthening demand for existing and new housing in Shoreline.

Table 4-2: Median Home Price, Shoreline and King County, 2012-2013

	2012	2013	% Change 2012-2013	Sales Volume	% Change
King County	$349,772	$383,000	9.5%	9,982	20.3%
City of Shoreline (a)					
West - 98177	$463,950	$450,000	-3.1%	109	21.1%
Central - 98155	$260,718	$317,175	17.8%	160	18.5%
East- 98133	$261,120	$320,000	18.4%	192	17.8%

Note:
(a) Zip codes 98177, 98155 and 98133 for the city of Shoreline include portions of northern Seattle city.

Source: DQNews; BAE, 2013.

Multifamily Housing

Multifamily units represent most of the new housing being developed in Shoreline and King County. Much of this has been in the form of new mixed-use residential development with ground floor commercial space (leasable for office or retail use), both in Shoreline and in adjacent communities, such as with the Arbor Village mixed-use project in Mountlake Terrace.

Shoreline currently has three new mixed-use residential developments in the initial lease up stage along the Aurora Avenue N and 15th Avenue NE corridors, and there are several such projects further south along Aurora Avenue in North Seattle.

There are currently 3,248 units under construction, planned, or proposed within the Trade Area, suggesting a very active market for this use. There will be potential to develop additional housing in Shoreline, particularly within walking distance from the new Lynnwood Link stations as well as near stops on the Metro RapidRide E Line BRT.

Rental Units

By and large, one and two bedroom units represent the bulk of new development, representing 43 percent and 40 percent of total units, respectively. In the Trade Area, apartment rents range from $940 per month for a 420 square foot studio built in 2012 to $2,300 for a 1,380 square foot two-bedroom/two-bathroom unit built in 2013. Occupancy rates exceed 90 percent, indicating a relatively healthy rental market.

Condominiums

According to DataQuick, a third party data vendor that collects County Assessor data, 113 condominiums sold in Shoreline between December 2012 and September 2013. Median sale prices ranged from $82,000 for a one-bedroom unit to nearly $470,000 for a unit with four or more bedrooms. This represents existing condominium units; although the residential market has not recovered to the point of supporting new condominium development in Shoreline. When it does, prices for new units are likely to be somewhat higher than these figures (with the pricing constraint being the value of existing single-family residential units).

Housing Style Opportunities

Supportable Station Area Development and Product Types

MULTIFAMILY RESIDENTIAL

Regional projections indicate that there will be demand through 2035 for approximately 4,700 to 5,000 new housing units in Shoreline. Shoreline is well positioned to capture this projected growth, and potentially exceed it, because of the convenient access it offers to Downtown Seattle, new types of housing choices, and the quality of its schools. Assuming that the subarea would absorb approximately 15 percent city's residential growth, this would equate to a demand for just over 700 units. However, the demand is likely to be higher as improvements are completed in the subarea and more land becomes available for redevelopment. Given the vision to create a high quality urban transit-oriented community, it is highly likely the subarea would absorb more than 15 percent of Shoreline's residential growth over the long term.

Based on the market analysis and growth projections, multifamily residential units present the greatest potential for new development. Because Shoreline is relatively built out, developers will need to provide the residential units to meet demand including new townhouse, condominium, and apartment projects, as well as senior housing.

Denser projects are needed to generate sufficient development value to make it feasible for developers to acquire already improved existing properties that have higher values than vacant sites. PSRC projects that the Trade Area will need 19,692 new residential units by 2035, approximately 4,700 of which will be located in Shoreline. There are currently 3,248 units under construction, planned, or proposed within the Trade Area.

There will be potential to develop additional housing in Shoreline, particularly within walking distance from the new Lynnwood Link stations as well as near stops on the Metro RapidRide E Line BRT.

CONVENIENCE RETAIL POTENTIAL

There is also development potential for a small amount of convenience retail to serve residents and transit users. Demand for commercial uses around the NE 185th Street Station will be limited due to the distance from the new station to other arterials and Shoreline's commercial areas.

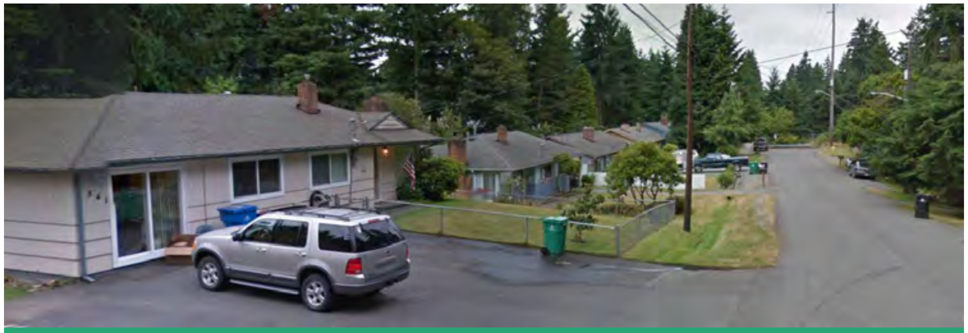
PROXIMITY TO AURORA AVENUE N

Aurora Avenue N, Shoreline's primary commercial corridor, located one mile from the planned station at I-5 and the NE 185th Street Station, means that it will be difficult to attract new retailers who will have a preference for being located in active retail areas (and setting aside the lack of existing sites suitable for retail development). This suggests that new retail development around the new NE 185th Street Station should not be targeted at destination retail, but rather retail uses that are viable based on demand in the immediate area, combined with new transit users. A location at the new transit station would be preferable in order to capture the greatest amount of this local and transit-oriented customer base. This could include small scale food and beverage uses, such as a coffee shop/café, small scale convenience stores, and personal services (dry cleaning, repair shops, etc.).

PARCEL ASSEMBLY CONSIDERATIONS

The lack of readily available development sites, and the existing low density single family residential character of the station area, means that parcels will need to be assembled to create viable development sites. The Shoreline Center site, owned by the Shoreline School District, west of I-5, and the existing small scale repair shop at the intersection of NE 185th Street and 10th Avenue N are among the best immediate candidates for redevelopment.

Other new development would require site assembly. The parcels adjacent to NE 185th Street, from the new NE 185th Street Station to 10th Avenue N, provide a reasonable opportunity for site assemblies of three to five parcels that could accommodate multifamily projects of approximately 30 to 40 units, depending upon the size of the assembly and the density that is allowed. Site assemblies of one or two parcels could support cottage houses, townhouses, or small rental projects (e.g. fourplexes). Larger land assemblies are likely to be more challenging because of the lower likelihood of successfully getting a large number of property owners to all agree upon terms and conditions of sale.



Neighborhood at 10th Avenue and 195th Street

To the extent the City is able or willing to undertake land assembly, it could increase developer interest in the area. Minimum or contingent zoning that only provides density for infill TOD-type development once a certain parcel size has been achieved (e.g. one acre or more) could enhance interested neighbors in working with each other to facilitate site assembly.

SHORELINE CENTER SITE

The Shoreline Center site, with the existing Shoreline Conference Center and other uses, is the single best potential development site. A challenge with this site will be, incorporating or replicating elsewhere the School District Offices (could be a ground floor use in new mixed-use development), community uses, sports fields and other recreational facilities, and office tenants that are currently on the site. Other portions of the school site could be redeveloped for new housing, pending analysis by the School District to determine future facility needs. Until the School District identifies what portion of the site it would be willing to make available for new uses, it will be difficult to generate interest from developers.

Seattle City Light Corridor

POWER TRANSMISSION LINES

Linear rights-of-way occupied by electrical transmission towers exist in the subarea and are not available for development of housing or other uses (other than open space and possibly some recreational use such as paths and trails beneath the lines). The transmission lines also could be a deterrent to adjacent redevelopment due to aesthetic issues. The City of Shoreline should continue to coordinate with Seattle City Light to explore options for relocating or reconfiguring the transmission lines in a way that is less intrusive to redevelopment potential. If undergrounding were feasible, this would benefit redevelopment potential; however the lines are of a size that may make undergrounding financially infeasible.

TRANSIT-ORIENTED DEVELOPMENT POTENTIAL REPORT BY SOUND TRANSIT

Sound Transit retained Kidder Mathews to prepare the Lynnwood Link Extension Station Area Transit-Oriented Development Potential report in 2013. This report included a preliminary market assessment of the demand for office space, multifamily housing, retail space, and lodging. The findings of the TOD Development Potential report were generally consistent with the findings of the 185th Street Station Subarea Market Assessment.

The Potential Impact of Transit on Property Values and Property Taxes

How implementation of light rail and rezoning might affect property values and property taxes in the subarea was a common question of existing homeowners during the planning process.

The potential for a new transit station to increase land values for properties adjacent to it is a topic that has been researched extensively over the past two decades in conjunction with the construction of numerous light rail and heavy rail systems across the US, often in the context of determining a “value premium” that can be “captured” to contribute to system financing. While use of “value capture” for financing is not envisioned for the Lynnwood Link extension, the research that has been conducted on this topic provides information to address questions raised by Shoreline residents near the new station site as to what impact the station might have on their property values, and potentially their property taxes.

VALUE PREMIUM IMPACTS

A substantial amount of research and analysis has been undertaken by policy experts to track and document the effects of fixed guideway transit systems (term includes heavy rail and light rail) on property values. This topic has commanded so much attention because many policymakers believe that fixed guideway transit systems create a value premium, i.e. an increase in property values or related economic factors as a result of the increased access and desirability of the land served by the fixed guideway transit. If increased value can be linked to the transit investments, a portion of this increase sometimes has the potential to be “captured” up front in the transit development process, and converted to a funding source for public improvements that support the transit system.

Numerous studies have used statistical models and other methods to examine whether premiums exist for real estate prices or lease rates near transit stops, particularly for commuter and light rail systems. A summary of various fixed guideway transit value premium studies was published in 2008 by the Center for Transit Oriented Development, a non-profit organization associated with Reconnecting America. Entitled *Capturing the Value of Transit*, the publication reviews the concepts associated with this topic, and summarizes the findings of more than 20 analyses of the effect of fixed guideway transit on different land uses around the US. Many of these studies, in turn, identified a range of value premiums associated with fixed guideway transit, and utilized a variety of techniques to come to this conclusion. The range of findings from the wealth of literature indicates that this topic presents challenges in distilling conclusions applicable directly to other locations. The *Capturing the Value of Transit* analysis found that the studied areas experienced increases in property values as shown in **Table 4-3**.

While **Table 4-3** focuses on those studies that found a premium, the report also describes a study that found negative impacts on value associated with fixed guideway transit. A 1995 study, by Dr. John Landis at the University of California, Berkeley, found that values for single family homes within 900 feet of light rail stations in Santa Clara County were 10.8 percent lower than comparable homes located further away. No value premium could be identified for commercial properties within one-half mile of BART stations in the East Bay of the San Francisco Bay Area. Compared to other research though, the potential for decrease in values is rare and likely influenced by other factors.

One of the most thorough analyses conducted after 2000, when contemporary fixed guideway transit systems had established their resurgence as a modern, desirable form of transportation in urban America, was conducted by Dr. Robert Cervero at the University of California, Berkeley. This study, a survey of other studies covering

Table 4-3: Range of Value Premiums Associated with Transit

	Range of Property Value Premium		
Single Family Residential	**+2% w/in 200 ft of station** *(San Diego Trolley, 1992)*	to	**+32% w/in 100 ft of station** *(St. Louis MetroLink Light Rail, 2004)*
Condominium	**+2% to 18% w/in 2,640 ft of station** *(San Diego Trolley, 2001)*		
Apartment	**+0% to 4% w/in 2,640 ft of station** *(San Diego Trolley, 2001)*	to	**+45% w/in 1,320 ft of station** *(VTA Light Rail, 2004)*
Office	**+9% w/in 300 ft of station** *(Washington Metrorail, 1981)*	to	**+120% w/in 1,320 ft of station** *(VTA Light Rail, 2004)*
Retail	**+1% w/in 500 ft of station** *(BART, 1978)*	to	**+167% w/in 200 ft of station** *(San Diego Trolley, 2004)*

Notes:
VTA Light Rail is the Santa Clara, CA Valley Transportation Authority
BART is Bay Area Rapid Transit
Source: Capturing Value from Transit (Center for Transit Oriented Development, November 2008)

only housing value premiums associated with fixed guideway transit, found that among the seven locations (Philadelphia, Boston, Portland, San Diego, Chicago, Dallas, and Santa Clara County), value premiums ranged from 6.4 to over 40 percent. The authors concluded that value premiums depended on a variety of factors, including traffic congestion, local real estate market conditions, and business cycles.

Transit in Europe can also provide insight to ways of measuring value capture. A study of 15 light rail systems in France, Germany, the United Kingdom, and North America measured housing prices, residential rent, office rent, and property values in each of the cities, concluding that there was a positive value premium in all but two cities. These two cities initially experienced negative value impacts from fixed guideway transit due to the noise associated with the light rail system. Technological improvements have since reduced noise levels and most modern light rail systems are fairly quiet.

One key aspect of the literature is the separation of fixed guideway transit's impacts on existing real estate versus its impacts on new development. In many situations, once a fixed guideway transit system is planned, local governments also increase zoning densities or implement policies that densify allowable development. This makes sense, because fixed guideway transit allows the movement of people without commensurate automobile traffic impacts. However, studies of value premiums often face the challenge of controlling the analysis for changes in zoning (to allow for denser development) and the effects of related development policies. Conversely, increases in allowable development through denser zoning, even in the absence of fixed guideway transit, will almost always result in a higher land value, because a developer can build more units on the same site under the increase in allowed density.

Based on the analysis of value premiums, and considering the range of outcomes for previous projects, it would be reasonable to assume a potential value premium ranging from five percent up to 10 percent for properties located within one-half mile of the new transit station (one-half mile is considered the point at which resident interest in walking to a transit station substantially decreases). This value premium would represent a one-time increase in values that would be associated with a new transit station, and would also capture the benefit of changes in zoning and other City implementation actions to encourage TOD projects.

PROPERTY TAX IMPACTS

An increase in property values does not result in a proportional increase in property taxes (e.g., a five percent increase in property value leading to a five percent increase in property taxes) due to the overlapping effects of three state constitutional and statutory measures:

- One-Percent Constitutional Limit: the State Constitution limits the regular combined property tax rate for all agencies to one percent, except for voter approved levies for schools or other agencies (such as the increase in the tax rate approved by Shoreline voters in 2010);
- Levy Increase Limit: Taxing districts, such as cities, are limited to a levy limit (limit on increase in property tax revenues) of no more than one percent of prior year property tax revenues, except for increases due to new construction, annexation, or voter approved increases; and
- Levy Amount Limit: There is a statutory limit on the maximum total levy for various types of taxing districts. The current maximum amount for cities is 0.59 percent of assessed value, excluding any voter-approved additional levies.

King County reassesses properties to fair market value on an annual basis. However, because of the One-Percent Constitutional Limit and Levy Amount and Levy Increase Limits, an increase in property values and assessed values does not automatically lead to an equivalent increase in property taxes.

Community members review the latest proposed ideas at a DEIS meeting

For example, each taxing district must on an annual basis adjust its levy (property tax) rate so that the increase in property taxes, excluding new construction, annexations, or voter-approved increases, does not exceed one percent. Other adjustments to levy rates may need to be made to stay within the One-Percent Constitutional and Levy Amount limits.

As described previously, there may be a potential for a one-time increase of between five to ten percent in property values within one-half mile of the 185th Street Station. The one-time increase in property values will need to be evaluated against overall changes in Shoreline property values to determine how it would impact property taxes for homeowners around the new NE 185th Street Station. For example, if the new 185th Street Station leads to a five percent increase in value, but this occurs in a hot real estate market where property values are increasing at a faster rate on an annual basis, the increase in assessed values for properties around the station may be driven more by market conditions than the new transit station.

Only in a flat market could homeowners around the new station possibly experience a one-time increase in property tax rates that could approach the rate of increase in property values. It should be noted that an increase in property values represents a 100 percent increase in homeowner equity.

Because of the complexity of the overlapping limits, it is not possible to make a specific forecast for how much property taxes might increase around the station area. Instead, one would need to run a series of multiple scenarios with varying assumptions for market-based increases in property values, the increase in the value of properties around a new transit station, and evaluation of how the constitutional and statutory limit affect Shoreline to come up with a projection for a range of possible outcomes.

For homeowners who might be severely affected by a property tax increase, King County operates several programs to assist homeowners who may face difficulty paying property taxes for any reason. This includes a property tax exemption for senior citizens and disabled persons, based on household income, that freezes valuation and can create some exemptions from regular property taxes.

Another program provides property tax deferrals for homeowners with limited income. The State also provides a property tax deferral program, administered by county assessors, that allows for full or partial deferral of property taxes. Another State program provides means-tested direct grant assistance for property tax payments to seniors and disabled persons who are widows or widowers of veterans, which for eligible households could help offset an increase in property taxes if it occurs.

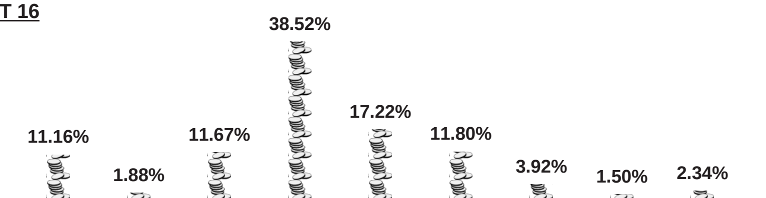
REVENUE FROM TAXES AND LEVIES

Revenue from taxes and levies helps to support City of Shoreline services and facilities, as well as those of the Shoreline School District, fire and emergency services, police, libraries, and other service providers. The two tables below (**Tables 4-4 and 4-5**) depict property taxes allocations in Shoreline and the pro-rated costs to an average home valued at $271,000. **Table 4-6** depicts historical and forecast property tax revenue for Shoreline. Revenues from taxes and levies are important funding sources to the City and other service providers, helping to fund projects, facilities, and services in the community, including those needed as a result of redevelopment and growth in the subarea over time.

Table 4-4

What a City Property Owner Pays in 2014
(Property Tax Rate)

CHART 16



	City Regular Levy	City Voted Levy	King County	Shoreline Schools	State Schools	Fire District	Library District	Port of Seattle	King County EMS	Total
Rate	$1.60	$0.27	$1.67	$5.53	$2.47	$1.69	$0.56	$0.22	$0.34	$14.34
% of Levy	11.16%	1.88%	11.67%	38.52%	17.22%	11.80%	3.92%	1.50%	2.34%	100.0%

Source: King County Department of Assessments; 2014 King County Taxing Districts Codes and Levies

Table 4-5

The chart below illustrates the City property tax portion payable in 2014 by an individual owning an average home valued at $271,000. Based on the 2014 property tax rate, 13% of the homeowner's property tax will be distributed to the City. This includes both the regular and voted City levies.

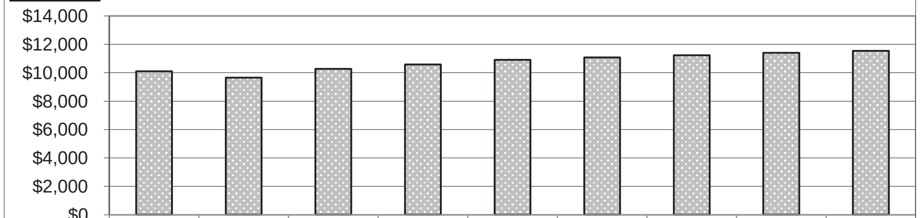
	Assessed Value	Per $1,000 (AV/$1,000)		Rate		Assessment	%
City	$ 271,000	271.00	X	$1.87	=	$507	13%
King County	$ 271,000	271.00	X	$1.67	=	$453	12%
Shoreline School Dist.	$ 271,000	271.00	X	$5.53	=	$1,497	39%
State Schools	$ 271,000	271.00	X	$2.47	=	$669	17%
Fire District	$ 271,000	271.00	X	$1.69	=	$459	12%
Library District	$ 271,000	271.00	X	$0.56	=	$152	4%
Port of Seattle	$ 271,000	271.00	X	$0.22	=	$58	2%
King Co. EMS	$ 271,000	271.00	X	$0.34	=	$91	2%
TOTAL				**$14.34**		**$3,887**	**100%**

Source: King County Department of Assessments; 2014 Median Residence Value for Shoreline reported per Assessed Value and Taxes by City

Table 4-6

Property Tax Historical Comparison & Forecast

CHART 17



	2012 Actual	2013 Actual	2014 Projected	2015 Budget	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020
Revenue	$10,096,971	$9,654,834	$10,272,205	$10,570,659	$10,896,531	$11,067,906	$11,234,356	$11,394,761	$11,531,361
$ Variance	$250,420	($442,137)	$617,371	$298,454	$325,872	$171,375	$166,450	$160,405	$136,601
% Variance	2.5%	(4.4%)	6.4%	2.9%	3.1%	1.6%	1.5%	1.4%	1.2%

Sources: City of Shoreline; King County Department of Assessments

Conclusion

The market assessment shows potential demand for multifamily residential housing and some neighborhood-supporting retail in the subarea over the next twenty years. Property values likely will increase at levels of 5 to 10 percent within one-half mile of the light rail station once it is operating. This increase in property value will not necessarily translate to increases in property taxes for everyone. Many factors influence property tax assessments. With the regional economy gaining strength, experts are forecasting that there will be growing employment opportunities as well as ongoing increased demand for housing and jobs in the coming decades. With the neighboring City of Seattle being one of the fastest growing cities of its size in the US and the attractiveness of living along the light rail line, Shoreline station subareas should experience market pressure for redevelopment. This will be tempered by the availability of sites large enough to support TOD, which in turn will be contingent upon owners' willingness to sell their properties and to aggregate with other property owners. These forces will moderate redevelopment activity, and as such, it is expected to take many decades for the station subarea to reach full build-out of the proposed zoning.